



VIA CERTIFIED MAIL

Working Interest Owners

Listed on Exhibit "A"

RE: Zeus 1932 Prospect (717093)
Warhawk 3 Federal Com #1H
N2N2 of Section 3:T19S-R32E
Lea County, New Mexico

Gentlemen:

COG Operating LLC ("COG") respectfully rescinds its initial Well Proposal dated July 12, 2012, regarding the Warhawk 3 Federal Com #1H, due to a description error in the surface hole and bottom hole location. COG hereby requests the aforementioned proposal be replaced with the following:

COG proposes the drilling of a horizontal well to a depth sufficient to adequately test the 2nd Bone Spring formation at a total measured depth being approximately 14,200'. The surface location for this well is proposed at a legal location in Unit D with a bottom hole location at a legal location in Unit A (see attached plat for further detail), with the dedicated project area being the N2N2 of Section 3, Township 19 South, Range 32 East, Lea County, New Mexico. Included herewith is our Authority for Expenditure ("AFE") in the gross amount of \$5,939,515.00, being the total estimated cost to drill and complete said well.

COG is proposing to drill this well under the terms of a modified 1989 A.A.P.L Form 610 Model Form Operating Agreement, which is enclosed herewith for your review and execution. The Operating Agreement covers the N/2 of Section 3: Township 19 South, Range 32 East, Lea County, New Mexico. It has the following general provisions:

- 400/400 Non-consenting penalty
- \$6,500/\$650 Drilling and Producing rate
- COG named as Operator

Please have the appropriate party execute, notarize and return one (1) original of each signatory page, being the Operating Agreement and Recording Memorandum or Exhibit "H". If you do not wish to participate in the proposed Operation, COG would like to acquire a Term Assignment of your leasehold for the following general terms:

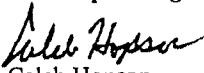
- One (1) year primary term
- Delivering a 80% NRI, proportionately reduced
- \$ 1,500.00 per net acre bonus consideration

This Term Assignment offer is subject to the approval of COG's management and verification of title.

Please indicate your participation election in the space provided on the following page, sign and return this letter, along with a signed copy of the enclosed AFE and a copy of your geologic well requirements, to my attention at the letterhead address. You may also fax your response to 432.221.0856 or by email to chopson@concho.com.

Should you have any questions, please do not hesitate to contact me at 432.686.3049.

Sincerely,
COG Operating LLC


Caleb Hopson
Landman

BEFORE THE OIL CONSERVATION DIVISION

Santa Fe, New Mexico

Exhibit No. 3

Submitted by:

COG OPERATING LLC

Hearing Date: January 24, 2013

Ch/
Enclosures:

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_____ I/We hereby elect to participate in the Warhawk 3 Federal Com #1H.

_____ I/We hereby elect to participate in the Warhawk 3 Federal Com #1H, plus the proportionate share of any non-consent interest.

_____ I/We hereby elect **NOT** to participate in the Warhawk 3 Federal Com #1H.

Company: _____

By: _____

Name: _____

Title: _____

Date: _____

**COG OPERATING LLC
AUTHORITY FOR EXPENDITURE
DRILLING**

| | |
|----------------------------------|--|
| WELL NAME: Warhawk 3 Fed Com #1H | PROSPECT NAME: Zeus 717093 |
| SHL: 780' FNL & 170' FWL | STATE & COUNTY: New Mexico, Lea |
| BHL: 380' FNL & 330' FEL | OBJECTIVE: TVD 9,410' / MD 14,200' / No PH |
| FORMATION: 2nd BSS | DEPTH: 14,200 |
| LEGAL: Sec 3-T19S-R32E | |

| INTANGIBLE COSTS | | BCP | ACP | TOTAL |
|--|-----|------------------|------------------|------------------|
| Title/Curative/Permit | 201 | 10,000 | | 10,000 |
| Insurance | 202 | 22,000 | 302 0 | 22,000 |
| Damages/Right of Way | 203 | 15,000 | 303 0 | 15,000 |
| Survey/Stake Location | 204 | 3,000 | 304 0 | 3,000 |
| Location/Pi's/Road Expense | 205 | 80,000 | 305 25,000 | 105,000 |
| Drilling / Completion Overhead | 206 | 5,000 | 306 1,000 | 6,000 |
| Turnkey Contract | 207 | 0 | 307 0 | 0 |
| Footage Contract | 208 | 0 | 308 0 | 0 |
| Daywork Contract (0 days /spud-rs @ \$0) | 209 | 391,000 | 309 0 | 391,000 |
| Directional Drilling Services (0 dir days @ \$0) | 210 | 175,000 | 310 0 | 175,000 |
| Fuel & Power | 211 | 130,000 | 311 0 | 130,000 |
| Water | 212 | 125,000 | 312 140,000 | 265,000 |
| Bits | 213 | 77,500 | 313 4,500 | 82,000 |
| Mud & Chemicals | 214 | 50,000 | 314 0 | 50,000 |
| Drill Stem Test | 215 | 0 | 315 0 | 0 |
| Coring & Analysis | 216 | 0 | | 0 |
| Cement Surface | 217 | 30,000 | | 30,000 |
| Cement Intermediate | 218 | 100,000 | | 100,000 |
| Cement 2nd Intermediate 7" | 218 | 0 | 319 125,000 | 125,000 |
| Cement Squeeze & Other (Kickoff Plug) | 220 | 0 | 320 0 | 0 |
| Float Equipment & Centralizers | 221 | 50,000 | 321 15,000 | 65,000 |
| Casing Crews & Equipment | 222 | 15,000 | 322 30,000 | 45,000 |
| Fishing Tools & Service | 223 | 0 | 323 0 | 0 |
| Geologic/Engineering | 224 | 10,000 | 324 1,000 | 11,000 |
| Contract Labor | 225 | 10,000 | 325 70,000 | 80,000 |
| Company Supervision | 226 | 2,000 | 326 2,000 | 4,000 |
| Contract Supervision | 227 | 37,800 | 327 35,000 | 72,800 |
| Testing Casing/Tubing | 228 | 7,000 | 328 0 | 7,000 |
| Mud Logging Unit (logging /24 days) | 229 | 24,000 | 329 0 | 24,000 |
| Logging | 230 | 25,000 | 330 0 | 25,000 |
| Perforating/Wireline Services | 231 | 10,000 | 331 100,000 | 110,000 |
| Stimulation/Treating | | | 332 1,700,000 | 1,700,000 |
| Completion Unit | | | 333 75,000 | 75,000 |
| Swabbing Unit | | | 334 0 | 0 |
| Rentals-Surface | 235 | 75,000 | 335 200,000 | 275,000 |
| Rentals-Subsurface | 236 | 100,000 | 336 40,000 | 140,000 |
| Trucking/Forklift/Rig Mobilization | 237 | 80,000 | 337 25,000 | 115,000 |
| Welding Services | 238 | 5,000 | 338 7,500 | 12,500 |
| Water Disposal | 239 | 0 | 339 227,500 | 227,500 |
| Plug to Abandon | 240 | 0 | 340 0 | 0 |
| Seismic Analysis | 241 | 0 | 341 0 | 0 |
| Closed Loop & Environmental | 244 | 175,000 | 344 10,000 | 185,000 |
| Miscellaneous | 242 | 5,000 | 342 0 | 5,000 |
| Contingency | 243 | 92,715 | 343 150,000 | 242,715 |
| TOTAL INTANGIBLES | | 1,947,015 | 2,983,500 | 4,930,515 |

| TANGIBLE COSTS | | BCP | ACP | TOTAL |
|--|-----|------------------|------------------|------------------|
| Surface Casing (655' 13 3/8" 54.5# J55 STC) | 401 | 36,000 | | 36,000 |
| Intermediate Casing(4050' 9 5/8" 36#/40# J55 BUTT) | 402 | 125,000 | 503 0 | 125,000 |
| Production Casing (13,450' 5 1/2" 17# N80/P110) | | | 503 240,000 | 240,000 |
| Tubing | | | 504 60,000 | 60,000 |
| Wellhead Equipment | 405 | 20,000 | 505 25,000 | 45,000 |
| Pumping Unit | | | 506 97,000 | 97,000 |
| Prime Mover | | | 507 20,000 | 20,000 |
| Rods | | | 508 50,000 | 50,000 |
| Pumps | | | 509 4,500 | 4,500 |
| Tanks | | | 510 46,000 | 46,000 |
| Flowlines | | | 511 3,000 | 3,000 |
| Heater Treater/Separator | | | 512 65,000 | 65,000 |
| Electrical System | | | 513 0 | 0 |
| Packers/Anchors/Hangers | 414 | 0 | 514 1,200 | 1,200 |
| Couplings/Fittings/Valves | 415 | 0 | 515 115,000 | 115,000 |
| Gas Compressors/Meters | | | 516 8,100 | 8,100 |
| Dehydrator | | | 517 0 | 0 |
| Injection Plant/CO2 Equipment | | | 518 0 | 0 |
| Miscellaneous | 419 | 0 | 519 0 | 0 |
| Contingency | 420 | 19,000 | 520 74,200 | 93,200 |
| TOTAL TANGIBLES | | 200,000 | 809,000 | 1,009,000 |
| TOTAL WELL COSTS | | 2,147,015 | 3,792,500 | 5,939,515 |

COG Operating LLC

Date Prepared: 7/11/12

We approve:
_____% Working Interest

COG Operating LLC

Seth Wild - Drtg

Company:
By: _____

Printed Name:
Title:
Date:

This AFE is only an estimate. By signing you agree to pay your share of the actual costs incurred.